

STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY



Report on
Examination

VILLAGE OF KALEVA

MANISTEE COUNTY

December 31, 2007

VILLAGE OF KALEVA

VILLAGE COUNCIL

Daniel Holtz
President

Richard Schafer
Council Member

Sandy Kaskinen
Council Member

Dean Grossnickle
Council Member

Jack McKinley
Council Member

Diane Thompson
Council Member

David Peters
Council Member

Cathi Holtz
Clerk

Judy Schafer
Treasurer

VILLAGE POPULATION--2000
509

TAXABLE VALUATION--2007
\$7,222,477



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

October 30, 2008

Village Council
Village of Kaleva
P.O. Box 45
Kaleva, Michigan 49645

Independent Auditor's Report

Dear Council Members:

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the Village of Kaleva, Manistee County, Michigan, as of and for the year ended December 31, 2007, which collectively comprise the village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Kaleva's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the village's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the Village of Kaleva, Michigan, as of December 31, 2007 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 30, 2008 on our consideration of the Village of Kaleva's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 1 through 6 and the budgetary comparison information (Exhibits H through J) are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Kaleva's basic financial statements. The accompanying supplementary information in Exhibits K through N is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

VILLAGE OF KALEVA

TABLE OF CONTENTS

	<u>Page</u>
MANAGEMENT’S DISCUSSION AND ANALYSIS	1
<u>BASIC FINANCIAL STATEMENTS</u>	
EXHIBIT A--Government-Wide Statement of Net Assets	7
EXHIBIT B--Government-Wide Statement of Activities	8
EXHIBIT C--Balance Sheet--Governmental Funds	9
EXHIBIT D--Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds	10
EXHIBIT E--Statement of Net Assets--Proprietary Fund--Water Fund	11
EXHIBIT F--Statement of Revenues, Expenses and Changes in Net Assets--Proprietary Fund--Water Fund	12
EXHIBIT G--Statement of Cash Flows--Proprietary Fund--Water Fund	13
NOTES TO FINANCIAL STATEMENTS	14
<u>REQUIRED SUPPLEMENTARY INFORMATION</u>	
EXHIBIT H--Budgetary Comparison Schedule--General Fund	29
EXHIBIT I--Budgetary Comparison Schedule--Major Street Major Special Revenue Fund.....	30
EXHIBIT J--Budgetary Comparison Schedule--Local Street Major Special Revenue Fund	31
EXHIBIT K--Budgetary Comparison Schedule--Library Major Special Revenue Fund	32
<u>SUPPLEMENTARY INFORMATION AND SCHEDULES</u>	
EXHIBIT L--Combining Balance Sheet--Non-Major Governmental Funds	33
EXHIBIT M--Combining Statement of Revenues, Expenditures and Changes in Fund Balance--Non-Major Governmental Funds.....	34

VILLAGE OF KALEVA

TABLE OF CONTENTS
(CONTINUED)

	<u>Page</u>
EXHIBIT N--Schedule of Revenues--Budget and Actual--General Fund	35
EXHIBIT O--Schedule of Expenditures--Budget and Actual--General Fund.....	36
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With <u>Government Auditing Standards</u>	37
Auditor's Communication With Those Charged With Governance.....	39
Schedule of Findings	42

VILLAGE OF KALEVA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2007

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Village, as a whole, and present a longer-term view of the Village's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements.

The Village as a Whole

The net assets for the governmental activities increased approximately 13% or \$138,978 from \$1,110,096 in 2005 to \$1,249,054 for the year ended December 31, 2007. The investment in capital assets-net of related debt increased by \$28,303, the restricted net assets decreased by \$54,474, and the unrestricted net assets increased by \$165,149 due to the Village's efforts to keep expenses down.

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specified purpose stipulated in the legislation.

Net assets as of year ended December 31, 2007 are as follows:

	<u>Governmental Activities 2005</u>	<u>Governmental Activities 2007</u>	<u>Difference</u>	<u>Percent</u>
Current Assets	\$ 444,378	\$ 543,590	\$ 99,212	22%
Noncurrent Assets	<u>764,568</u>	<u>807,444</u>	<u>42,876</u>	<u>6%</u>
Total Assets	<u>1,208,946</u>	<u>1,351,034</u>	<u>142,088</u>	<u>12%</u>
Current Liabilities	8,096	24,190	16,094	199%
Noncurrent Liabilities	<u>90,754</u>	<u>77,790</u>	<u>(12,964)</u>	<u>-14%</u>
Total Liabilities	<u>98,850</u>	<u>101,980</u>	<u>3,130</u>	<u>3%</u>
Net Assets				
Invested in Capital Assets-Net of Debt	673,814	702,117	28,303	4%
Restricted	172,187	117,713	(54,474)	-32%
Unrestricted	<u>264,075</u>	<u>429,224</u>	<u>165,149</u>	<u>63%</u>
Total Net Assets	<u>\$ 1,110,076</u>	<u>\$ 1,249,054</u>	<u>\$ 138,978</u>	<u>13%</u>

VILLAGE OF KALEVA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2007

The net assets for the business-type activities increased approximately 163% or \$206,096 from \$126,680 in 2005 to \$332,776 for the year ended December 31, 2007. The investment in capital assets-net of related debt increased by \$167,776 and the unrestricted net assets increased by \$38,324 due to the Village's improvements to the water system with a Federal grant and bonds issued during 2006.

	Business-Type Activities <u>2005</u>	Business-Type Activities <u>2007</u>	<u>Difference</u>	<u>Percent</u>
Current Assets	\$ 40,595	\$ 88,009	\$ 47,414	117%
Noncurrent Assets	<u>95,290</u>	<u>435,062</u>	<u>339,772</u>	<u>357%</u>
Total Assets	<u>135,885</u>	<u>523,071</u>	<u>387,186</u>	<u>285%</u>
Current Liabilities	9,205	18,295	9,090	99%
Noncurrent Liabilities	<u> </u>	<u>172,000</u>	<u>172,000</u>	<u>100%</u>
Total Liabilities	<u>9,205</u>	<u>190,295</u>	<u>181,090</u>	<u>1967%</u>
Net Assets				
Invested in Capital Assets-Net of Debt	95,290	263,062	167,772	176%
Unrestricted	<u>31,390</u>	<u>69,714</u>	<u>38,324</u>	<u>122%</u>
Total Net Assets	<u>\$126,680</u>	<u>\$ 332,776</u>	<u>\$ 206,096</u>	<u>163%</u>

VILLAGE OF KALEVA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2007

The following table shows the changes of the net assets as of the current year to 2005:

	Governmental Activities <u>2005</u>	Governmental Activities <u>2007</u>	Difference Increase (Decrease) <u></u>	Percent <u></u>
Program Revenues				
Charges for Services	\$ 99,991	\$ 110,815	\$ 10,824	11%
Operating Grants and Contributions	81,687	83,117	1,430	2%
Capital Grants and Contributions		15,000	15,000	100%
General Revenues				
Property Taxes	55,303	56,704	1,401	3%
State-Shared Revenues	43,774	43,297	(477)	-1%
Unrestricted Investment Earnings	5,496	15,414	9,918	180%
Other	9,662	501	(9,161)	-95%
Total Revenues	<u>295,913</u>	<u>324,848</u>	<u>28,935</u>	<u>10%</u>
Program Expenses				
General Government	47,400	69,629	22,229	47%
Public Safety	5,627	4,771	(856)	-15%
Public Works	160,695	126,060	(34,635)	-22%
Community and Economic Development	3,009	1,769	(1,240)	-41%
Recreation and Culture	53,292	46,069	(7,223)	-14%
Other	5,277	4,920	(357)	-7%
Interest on Long-Term Debt	1,100		(1,100)	-100%
Total Expenses	<u>276,400</u>	<u>253,218</u>	<u>(23,182)</u>	<u>-8%</u>
Change in Net Assets	<u>\$ 19,513</u>	<u>\$ 71,630</u>	<u>\$ 52,117</u>	<u>267%</u>
Ending Net Assets	<u>\$ 1,110,096</u>	<u>\$ 1,249,054</u>	<u>\$ 138,958</u>	<u>13%</u>

VILLAGE OF KALEVA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2007

Business-Type Activities

The Village's business-type activities consist of the Water Fund. The Village provides water to all of the Village's residents. The expenses for the Water Fund increased as the Village overhauled the system. The revenues for the Water Fund increased as the Village raised rates to pay for the new water system.

	Business-Type Activities 2005	Business-Type Activities 2007	Difference Increase (Decrease)	Percent
Program Revenues				
Charges for Services	\$ 41,440	\$ 50,582	\$ 9,142	22%
Capital Grants and Contributions		222,000	222,000	100%
General Revenues				
Unrestricted Investment Earnings	1,784	2,590	806	45%
Total Revenues	43,224	275,172	231,948	537%
Program Expenses				
Water	46,276	65,843	19,567	42%
Interest on Long-Term Debt		9,884	9,884	100%
Total Expenses	46,276	75,727	29,451	64%
Change in Net Assets	\$ (3,052)	\$ 199,445	\$ 202,497	-6635%
Ending Net Assets	\$ 126,680	\$ 332,776	\$ (202,497)	-160%

VILLAGE OF KALEVA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2007

Governmental Activities

The Village's total governmental revenues increased \$25,847. Expenses also increased \$59,091 primarily due to two road projects that were started during 2007.

	Governmental Activities 2005	Governmental Activities 2007	Difference	Percent Difference
Revenues				
Taxes	\$ 55,303	\$ 56,704	\$ 1,401	3%
Licenses and Permits	320	701	381	119%
State Grants	122,522	119,852	(2,670)	-2%
Contributions From Other Governmental Entities		2,000	2,000	100%
Charges for Services	1,990	6,408	4,418	222%
Interest and Rentals	105,816	126,133	20,317	19%
Other	9,962	15,651	5,689	57%
Total Revenues	295,913	327,449	25,847	9%
Expenses				
General Government	47,400	69,535	22,135	47%
Public Safety	5,627	4,771	(856)	-15%
Public Works	135,837	185,172	49,335	36%
Community and Economic Development	3,009	1,769	(1,240)	100%
Recreation and Culture	33,092	24,056	(9,036)	100%
Other	5,277	4,920	(357)	-7%
Capital Outlay		15,651	15,651	100%
Debt Service	23,024	6,483	(16,541)	-72%
Total Expenses	253,266	312,357	59,091	23%
Excess of Revenues Over Expenditures	42,647	15,092	(27,555)	-65%
Other Financing Sources (Uses)				
Interfund Transfers In	31,000	30,000	(1,000)	-3%
Interfund Transfers (Out)	(31,000)	(30,000)	1,000	-3%
Total Other Financing Sources (Uses)	-	-	-	0%
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	42,647	15,092	(27,555)	-65%
Beginning Fund Balance	393,635	494,632	100,997	26%
Ending Fund Balance	\$ 436,282	\$ 509,724	\$ 73,442	17%

As seen above, the Village's interest and rental revenue increased in 2007 due to royalties received from Ward Lake Energy and the land contract.

The Village's Funds

Our analysis of the Village's major funds are listed in the audit report, following the entity-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Village as a whole. The Village Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Village's major funds for 2007 include the General Fund, Major Street Fund, Local Street Fund, Library Fund and the Water Fund.

VILLAGE OF KALEVA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2007

The General Fund pays for most of the Village's governmental services. The most significant are for general government activities and Public Works, which incurred expenses of \$69,535 and \$185,172, respectively, during 2007. These services are supported by the operating millage and State shared revenues and Michigan Transportation Funds. The Water Fund is described above.

General Fund Budgetary Highlights

Over the course of the year, the Village Council amended the budget to take into account events during the year. The revenue budget was not amended and the actual revenues were \$32,677 more than the final budget. The most significant difference was in the interest and rentals. The expenditure budget was increased by \$40,150 during 2007 with the most significant areas in the general government and public works. The actual expenditures were \$45,800 less than the final amended budget. The most significant areas were in the general government and public works.

Capital Asset and Debt Administration

At the end of 2007, the Village's governmental funds had \$803,697 invested in a broad range of capital assets, including land, buildings, equipment, and vehicles and infrastructure, net of accumulated depreciation; and \$435,062 invested in the water system. To pay for the renaissance land acquired, the Village entered into a Michigan Economic Development Corporation (MEDC) loan for \$90,754. The balance due on the loan was \$77,790 at December 31, 2007. The Village also issued bonds in the amount of \$180,000 in November 2006 to improve the water system. The balance was \$172,000 at December 31, 2007.

Economic Factors and Next Year's Budgets and Rates

The Village's budget for 2008 will increase as the Village has planned more street repairs. In regards to the water system, the expenses will level out as the Village expanded its water system through the use of a grant and a loan obtained by the Village. To coincide with the water improvements, the Village also increased water rates.

Contacting the Village's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Village's finances and to show accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Village's Office at 9219 Aura Street, P.O. Box 45, Kaleva, Michigan 49645 (Phone Number 231-362-3366).

VILLAGE OF KALEVA
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
December 31, 2007

EXHIBIT A

	PRIMARY GOVERNMENT		
	Governmental Activities	Business-Type Activities	Total
<u>ASSETS</u>			
Current Assets			
Cash and Cash Equivalents	\$ 497,846	\$ 88,009	\$ 585,855
Delinquent Taxes Receivable	10,426		10,426
Land Contract Receivable	9,676		9,676
Due From State	25,642		25,642
Total Current Assets	543,590	88,009	631,599
Noncurrent Assets			
Long-Term Receivable	3,747		3,747
Capital Assets--Net of Accumulated Depreciation	803,697	435,062	1,238,759
Total Assets	1,351,034	523,071	1,874,105
<u>LIABILITIES</u>			
Current Liabilities			
Accounts Payable	24,190	18,295	42,485
Noncurrent Liabilities			
MEDC Loan--Due Within One Year	6,482		6,482
MEDC Loan--Due in More Than One year	71,308		71,308
Bonds Payable--Due Within One Year		8,000	8,000
Bonds Payable--Due In More Than One Year		164,000	164,000
Total Liabilities	101,980	190,295	292,275
<u>NET ASSETS</u>			
Investment in Capital Assets--Net of Related Debt	702,117	263,062	965,179
Restricted for			
Major Street	12,329		12,329
Local Street	8,745		8,745
Library	64,944		64,944
Non-Major	31,695		31,695
Unrestricted	429,224	69,714	498,938
Total Net Assets	\$ 1,249,054	\$ 332,776	\$ 1,581,830

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF KALEVA
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2007

EXHIBIT B

Functions/Programs	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	PRIMARY GOVERNMENT		
					Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental Activities							
General Government	\$ 69,629	\$ 102,960			\$ 33,331		\$ 33,331
Public Safety	4,771		\$ 637		(4,134)		(4,134)
Public Works	126,060	725	76,807	\$ 15,000	(33,528)		(33,528)
Community and Economic Development	1,769		290		(1,479)		(1,479)
Recreation and Culture	46,069	5,630	5,383		(35,056)		(35,056)
Other	4,920				(4,920)		(4,920)
Total Governmental Activities	253,218	109,315	83,117	\$ 15,000	(45,786)	\$ -	(45,786)
Business-Type Activities							
Water							
Water Operations	65,843	50,582		222,000		206,739	206,739
Interest on Long-Term Debt	9,884					(9,884)	(9,884)
Total Business-Type Activities	75,727	50,582	-	222,000	-	196,855	196,855
Total Primary Government	\$ 328,945	\$ 159,897	\$ 83,117	\$ 237,000	\$ (45,786)	\$ 196,855	\$ 151,069
General Revenues							
Property Taxes					\$ 56,704		\$ 56,704
State-Shared Revenues					43,297		43,297
Unrestricted Investment Earnings					15,414	\$ 2,590	18,004
Sale of Capital Assets					2,001		2,001
Total General Revenues					117,416	2,590	120,006
Change in Net Assets					71,630	199,445	271,075
Net Assets--Beginning					1,177,424	133,331	1,310,755
Net Assets--Ending					\$ 1,249,054	\$ 332,776	\$ 1,581,830

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF KALEVA
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2007**

EXHIBIT C

	MAJOR FUNDS					Total
	General	Major Street	Local Street	Library	Non-Major Funds	Governmental Funds
<u>ASSETS</u>						
Cash and Cash Equivalents	\$ 390,474	\$ 4,328	\$ 6,305	\$ 64,944	\$ 31,795	\$ 497,846
Delinquent Taxes Receivable	10,426					10,426
Land Contract Receivable	9,676					9,676
Long-Term Receivable	3,747					3,747
Due From State	15,001	7,776	2,865			25,642
Due From Other Funds		325				325
Total Assets	\$ 429,324	\$ 12,429	\$ 9,170	\$ 64,944	\$ 31,795	\$ 547,662
<u>LIABILITIES AND FUND EQUITY</u>						
Liabilities						
Accounts Payable	\$ 100	\$ 100	\$ 23,890		\$ 100	\$ 24,190
Due to Other Funds			325			325
Derferred Revenue	13,423					13,423
Total Liabilities	13,523	100	24,215	\$ -	100	37,938
Fund Equity						
Fund Balances						
Reserved for						
Major Street		12,329				12,329
Local Street			(15,045)			(15,045)
Library				64,944		64,944
Non-Major					31,695	31,695
Unreserved--Undesignated	415,801					415,801
Total Fund Equity	415,801	12,329	(15,045)	64,944	31,695	509,724
Total Liabilities and Fund Equity	\$ 429,324	\$ 12,429	\$ 9,170	\$ 64,944	\$ 31,795	\$ 547,662
Fund Balances--Total Governmental Funds						\$ 509,724
Amounts reported for governmental activities in the Statement of Net Assets are different because:						
Long-term receivables that are not due and receivable in the current period and are not reported in the funds.						13,423
Capital assets used in governmental activities are not financial resources and are not reported in the funds.						803,697
Long-term liabilities are not due and payable in the current period and are not reported in the funds.						(77,790)
Net Assets of Governmental Activities						\$ 1,249,054

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF KALEVA
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2007

EXHIBIT D

	MAJOR FUNDS					Total
	General	Major Street	Local Street	Library	Non-Major Funds	Governmental Funds
Revenues						
Taxes	\$ 56,704					\$ 56,704
Licenses and Permits	701					701
State Grants	43,297	\$ 55,903	\$ 20,015		\$ 637	119,852
Contributions From Other Governmental Entities	2,000					2,000
Charges for Services	53	544	181		5,630	6,408
Interest and Rentals	118,071	755	134		290	119,250
Other Revenue	2,151		15,000	\$ 5,383		22,534
Total Revenues	222,977	57,202	35,330	5,383	6,557	327,449
Expenditures						
Current						
General Government	69,535					69,535
Public Safety	4,134				637	4,771
Public Works	25,349	94,806	65,017			185,172
Community and Economic Development	1,769					1,769
Recreation and Cultural	8,773			6,594	8,689	24,056
Other	4,920					4,920
Capital Outlay	12,241				3,410	15,651
Debt Service						
Principal	1,621				4,862	6,483
Total Expenditures	128,342	94,806	65,017	6,594	17,598	312,357
Excess of Revenues Over (Under) Expenditures	94,635	(37,604)	(29,687)	(1,211)	(11,041)	15,092
Other Financing Sources (Uses)						
Interfund Transfers In		25,000	-		5,000	30,000
Interfund Transfers (Out)	(30,000)	-				(30,000)
Total Other Financing Sources (Uses)	(30,000)	25,000	-	-	5,000	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	64,635	(12,604)	(29,687)	(1,211)	(6,041)	15,092
Fund Balance (Deficit)--January 1, 2007	351,166	24,933	14,642	66,155	37,736	494,632
Fund Balance (Deficit)--December 31, 2007	\$ 415,801	\$ 12,329	\$ (15,045)	\$ 64,944	\$ 31,695	\$ 509,724
Excess of Revenue Over Other Sources Over (Under) Expenditures and Other Uses						\$ 15,092
Amounts reported for governmental activities in the Statement of Activities are different because:						
Governmental funds report capital outlays as expenditures; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation.						(2,601)
Governmental funds report capital outlays as expenditures; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation.						52,655
Repayments of installment purchase agreements is an expenditure in the governmental funds, but not in the Statement of Activities (where it reduces the long-term debt).						6,483
Change in Net Assets of Governmental Activities						\$ 71,630

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF KALEVA
STATEMENT OF NET ASSETS
PROPRIETARY FUND--WATER FUND
December 31, 2007**

EXHIBIT E

<u>ASSETS</u>	<u>Business-Type Activities</u>
Current Assets	
Cash and Cash Equivalents	<u>\$ 88,009</u>
Total Current Assets	<u>88,009</u>
Noncurrent Assets	
Capital Assets--Net of Accumulated Depreciation	<u>435,062</u>
Total Noncurrent Assets	<u>435,062</u>
Total Assets	<u>523,071</u>
<u>LIABILITIES</u>	
Current Liabilities	
Accounts Payable	<u>18,295</u>
Total Current Liabilities	<u>18,295</u>
Noncurrent Liabilities	
Bonds Payable--Due Within One Year	8,000
Bonds Payable--Due in More Than One Year	<u>164,000</u>
Total Noncurrent Liabilities	<u>172,000</u>
Total Liabilities	<u>190,295</u>
<u>NET ASSETS</u>	
Invested in Capital Assets--Net of Related Debt	263,062
Unrestricted	<u>69,714</u>
Total Net Assets	<u><u>\$ 332,776</u></u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF KALEVA
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS--PROPRIETARY FUND
WATER FUND
For the Fiscal Year Ended December 31, 2007

EXHIBIT F

	Business-Type Activities
Operating Revenues	
Charge for Services	\$ 50,582
Total Operating Revenues	<u>50,582</u>
Operating Expenses	
Wages	10,548
Fringes	1,085
Supplies	3,157
Repairs and maintenance	5,608
Utilities	7,519
Insurance	1,913
Dues	1,268
Professional Services	865
Miscellaneous	2,009
Depreciation	<u>31,871</u>
Total Operating Expenses	<u>65,843</u>
Net Operating Income (Loss)	<u>(15,261)</u>
Nonoperating Revenues (Expenses)	
Federal Grant	222,000
Interest Income	2,590
Interest Expense	<u>(9,884)</u>
Total Nonoperating Revenues (Expenses)	<u>214,706</u>
Net Income (Loss)	<u>199,445</u>
Retained Earnings--January 1, 2007	<u>133,331</u>
Retained Earnings--December 31, 2007	<u><u>\$ 332,776</u></u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF KALEVA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND--WATER FUND
For the Year Ended December 31, 2007

EXHIBIT G

	<u>Business-Type Activities</u>
Cash Flows From Operating Activities	
Cash Received From Customers	\$ 50,582
Cash Payments to Employees for Services and Benefits	(11,633)
Cash Payments to Suppliers for Goods and Services	<u>(4,044)</u>
Net Cash Provided by Operating Activities	<u>34,905</u>
Cash Flows From Capital and Related Financing Activities	
Acquisition of Capital Assets	(330,070)
Capital Contributions	222,000
Reduction of Long-Term Debt	(8,000)
Interest Paid on Capital Financing	<u>(9,884)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>(125,954)</u>
Cash Flows From Investing Activities	
Interest on Cash Equivalents	<u>2,590</u>
Net Cash Provided by Investing Activities	<u>2,590</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(88,459)
Cash and Cash Equivalents at Beginning of Year	<u>176,468</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 88,009</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ (15,261)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation Expense	31,871
Increase (Decrease) in Accounts Payable	<u>18,295</u>
Net Cash Provided by Operating Activities	<u><u>\$ 34,905</u></u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF KALEVA

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of Kaleva (village) is located in Manistee County and provides services to approximately 500 residents in many areas including public safety, highways and streets, general administrative services, and community enrichment and development. The Village was incorporated in April of 1948 and operates as a president/trustee form of government.

Reporting Entity

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," these financial statements present the village (the primary government) and its component units. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if data were not included. Accordingly, there are no other governmental organizations required to be included in the financial statements of the village.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

VILLAGE OF KALEVA

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenues are considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the village.

The village reports the following major governmental funds:

The General Fund is the village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the resources of State gas and weight tax revenues that are restricted for use on major streets.

The Local Street Fund accounts for the resources of State gas and weight tax revenues that are restricted for use on local streets.

The Library Fund accounts for the donations restricted for use on library operations and capital improvements.

VILLAGE OF KALEVA

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The village reports the following major proprietary fund:

The Water Fund accounts for the water operations of the village.

Private-sector standards of accounting and financial reporting, issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The village has elected to consistently apply all applicable Financial Accounting Standards Board (FASB) pronouncements, issued subsequent to November 30, 1989, in accounting and reporting for its proprietary operation.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with a proprietary fund's principal ongoing operations (water). Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

When both restricted and unrestricted resources are available for use, it is the village's policy to use restricted resources first, then unrestricted resources as they are needed.

Bank Deposits and Investments

The bank deposits are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less from the date of acquisition. The statement of cash flows includes both restricted and unrestricted cash and cash equivalents

Investments are stated at fair value and short-term investments are reported at cost, which approximates fair value. Earnings from investments are allocated to numerous funds as required by Federal regulations, State statutes, and local ordinances.

VILLAGE OF KALEVA

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Property Taxes

The village's 2007 ad valorem tax is levied and collectible on July 1, 2007. It is the village's policy to recognize revenues from the current tax levy in the current year when the proceeds of this levy are budgeted and made available for financing of the village operations. Property taxes are recognized when received. The 2007 State taxable valuation of the village amounted to \$7,222,477, on which ad valorem taxes levied for all village purposes were \$57,780. There were 8 mills levied for general operations.

Uncollected real property taxes, which become delinquent October 1, are purchased by Manistee County and paid to the village in January of the subsequent year.

Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

GASB Statement No. 34 makes it optional for phase III governments (Kaleva Village) to record major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated, for fiscal years ending after June 30, 1980, and that they be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. The Village of Kaleva has capitalized the current year's infrastructure since 2007, as required by GASB Statement No. 34, and has reported the infrastructure in the Statement of Net Assets.

VILLAGE OF KALEVA

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation

Depreciation is computed on property, plant and equipment, and infrastructure using the straight-line method. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

	<u>Governmental Funds</u>	<u>Enterprise Funds</u>
Buildings	20 to 40 years	
Vehicles	5 to 10 years	
Equipment	5 to 10 years	5 to 10 years
Infrastructure--Roads	8 to 30 years	
Water System		40 years

Long-Term Obligations

In the government-wide financial statements and proprietary fund type statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Assets. For new bond issuances after the implementation of GASB Statement No. 34, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

VILLAGE OF KALEVA

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgets are adopted by the village council for the General Fund and some special revenue funds after a public hearing is held. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues and expenditures for these funds. The budget is adopted at the activity level and control is exercised at the activity level. The village council does not monitor or amend the budgets as necessary. Unexpended appropriations lapse at year end.

Legal Noncompliance/Violation of Finance Related Provision

Noncompliance with the budgeting act as required by PA 2 of 1968, as amended, (MCL 141.421 through MCL 141.440a) occurred during the year. Public Act 2 of 1968, as amended, requires the adoption of a balanced budget for general and special revenue funds, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget. During 2007, the Major and Local Street Funds had deficit amended budgets. The original budget was adopted in January 2007 and the budget amendments were approved in January 2008 after the year end.

Excess of Expenditures Over Appropriation in Budgeted Funds

During the year, the village incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

<u>Fund, Function and Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Excess Expenditures</u>
Local Street Fund			
Public Works--Construction	\$ 25,000	\$ 38,790	\$ (13,790)
Library Fund			
Recreational and Cultural		6,594	(6,594)

During the year ended December 31, 2007, budgets were not adopted for the following special revenue funds: Liquor Law Enforcement, Renaissance and Library.

Deficit Equity

As of December 31, 2007, the Local Street Fund had a deficit fund balance of \$15,045. The deficit occurred as a result of local street construction that was in progress during 2007 and was not billed until February 2008. It is expected that the deficit will not occur in subsequent years. The village is working on a plan to eliminate the deficit.

VILLAGE OF KALEVA

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE C--BANK DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the village to deposit and invest in the accounts of Federally insured banks, credit unions, savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements, bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase, obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The village council has designated one bank for the deposit of village funds. The investment policy adopted by the council in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The village's deposits and investment policy are in accordance with statutory authority.

At year end, the village did not have any investments and the village's deposits were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>
Bank Deposits	\$ 497,746	\$ 88,009	\$ 585,755
Petty Cash	<u>100</u>	<u></u>	<u>100</u>
Total Cash and Cash Equivalents	<u>\$ 497,846</u>	<u>\$ 88,009</u>	<u>\$ 585,855</u>

The bank balance of the primary government's deposits is \$594,549, of which \$100,000 is covered by Federal depository insurance. On October 3, 2008, FDIC deposit insurance temporarily increased from \$100,000 to \$250,000 per depositor through December 31, 2009.

Disclosures Relating to Interest Rate Risk

During the year, the village was subject to interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The longer the maturity of an investment, generally, the greater the sensitivity of its fair value to changes in market interest rates.

Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

VILLAGE OF KALEVA

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE C--BANK DEPOSITS AND INVESTMENTS (Continued)

The village's investment policy does not address concentration of credit risk.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

The village's investment policy does not address credit risk.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the village's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker/dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the village's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

The village's investment policy does not address GASB 40 risk assessments.

NOTE D--LONG-TERM RECEIVABLE

Receivable--Primary Government

The Village of Kaleva made a verbal agreement with the local elementary school to purchase playground equipment. In December 2006, the Village of Kaleva wrote a check for \$6,746 for playground equipment. It was agreed that \$1,000 would be a donation from the village and the other \$5,747 would be paid back by the elementary school, over three years, by December 31, 2009. During the year ending December 31, 2007, the elementary school had paid the village \$2,000. At year end, the village carried a long-term receivable in the amount of \$3,747. The long-term receivable was not collected within 60 days after year end and is offset by deferred revenue.

VILLAGE OF KALEVA

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE D--LONG-TERM RECEIVABLE (Continued)

Land Contract Receivable

In July 2005, the Village of Kaleva entered into a land contract with individuals to purchase the old library. The terms of the agreement were for \$16,000 with \$5,000 down and payments of \$125 per month for 36 months at 9% interest, leaving a balloon balance of \$9,243.46 due in August 2008. During the year ended December 31, 2007, the individuals had paid the village \$1,500. At December 31, 2007, the land contract receivable had a balance of \$9,675.61. The land contract receivable was not collected within 60 days after year end and is offset by deferred revenue.

NOTE E--INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The 2007 operating transfers from Exhibit D can be summarized as follows:

	<u>Transfers In</u>	<u>Transfers (Out)</u>
General		\$ 30,000
Major Street	\$ 25,000	
Non Major Governmental	<u>5,000</u>	<u> </u>
Total	<u>\$ 30,000</u>	<u>\$ 30,000</u>

The 2007 Due To/Due From amounts from Exhibit C can be summarized as follows:

	<u>Due From</u>	<u>Due To</u>
Major Street	\$ 325	
Local Street	<u> </u>	<u>\$ 325</u>
Total	<u>\$ 325</u>	<u>\$ 325</u>

VILLAGE OF KALEVA

NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE F--CAPITAL ASSETS

Capital asset activity of the village's governmental funds for the current year, as follows:

<u>Governmental Activities</u>	<u>Account Balances 01/01/07</u>	<u>Additions</u>	<u>Deductions</u>	<u>Account Balances 12/31/07</u>
Capital Assets Not Being Depreciated				
Land and Improvements	\$ 348,000			\$ 348,000
Construction in Progress		\$ 38,790		38,790
Subtotal	<u>348,000</u>	<u>38,790</u>	<u>\$ -</u>	<u>386,790</u>
Capital Assets Being Depreciated				
Buildings	633,870	15,651		649,521
Vehicles	148,290		2,000	146,290
Infrastructure--Roads		33,768		33,768
Total	<u>782,160</u>	<u>49,419</u>	<u>2,000</u>	<u>829,579</u>
Less Accumulated Depreciation				
Buildings	247,606	27,153		274,759
Vehicles	<u>131,513</u>	<u>8,400</u>	<u>2,000</u>	<u>137,913</u>
Total	<u>379,119</u>	<u>35,553</u>	<u>2,000</u>	<u>412,672</u>
Net Capital Assets Being Depreciated	<u>403,041</u>	<u>49,419</u>	<u>35,553</u>	<u>416,907</u>
Governmental Activities Capital Total				
Capital Assets--Net of Depreciation	<u>\$ 751,041</u>	<u>\$ 88,209</u>	<u>\$ 35,553</u>	<u>\$ 803,697</u>

The depreciation expense was \$35,553 during the year.

The construction in progress is related to a new local road for Trouppi Estates Development. The total project cost was estimated at \$47,189 with the developer contributing \$15,000 for the clearing and grubbing. At December 31, 2007, the project was approximately 82% complete. This includes the developer's \$15,000 for clearing and grubbing and the village's share of the project costs of \$23,790 for work completed during 2007. The project will be completed during 2008.

VILLAGE OF KALEVA

NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE F--CAPITAL ASSETS (Continued)

Capital asset activity of the village's enterprise funds for the current year, as follows:

<u>Business-Type Activities</u>	<u>Account Balances 01/01/07</u>	<u>Additions</u>	<u>Deductions</u>	<u>Account Balances 12/31/07</u>
Capital Assets Being Depreciated				
Water System	\$ 152,127			\$ 152,127
Wells	7,146			7,146
Equipment	84,298			84,298
Water System Improvements	<u>41,573</u>	<u>\$ 330,070</u>		<u>371,643</u>
Total	<u>285,144</u>	<u>330,070</u>	<u>\$ -</u>	<u>615,214</u>
Less Accumulated Depreciation				
Water System	123,733	11,448		135,181
Wells	7,146			7,146
Equipment	<u>17,402</u>	<u>20,423</u>		<u>37,825</u>
Total	<u>148,281</u>	<u>31,871</u>	<u>-</u>	<u>180,152</u>
Net Capital Assets Being Depreciated	<u>136,863</u>	<u>330,070</u>	<u>31,871</u>	<u>435,062</u>
Business-Type Activities Capital Total				
Capital Assets--Net of Depreciation	<u>\$ 136,863</u>	<u>\$ 330,070</u>	<u>\$ 31,871</u>	<u>\$ 435,062</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities	
General Government	\$ 94
Public Works	13,446
Recreational and Cultural	<u>22,013</u>
Total Governmental Activities	<u>\$ 35,553</u>
Business-Type Activities	
Water System	\$ 11,448
Water	<u>20,423</u>
Total Business-Type Activities	<u>\$ 31,871</u>

VILLAGE OF KALEVA

NOTES TO FINANCIAL STATEMENTS December 31, 2007

NOTE G--LONG-TERM DEBT

The individual long-term debt of the primary government of the village, and the changes therein, may be summarized as follows:

	<u>Balance</u> <u>01/01/07</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balance</u> <u>12/31/07</u>	<u>Due Within</u> <u>One Year</u>
<u>Governmental Activity</u>				
Michigan Economic Development Corporation loan agreement establishing village renaissance zone with equal monthly installments of \$1,621 and an interest rate of 0%.	<u>\$ 84,272</u>	<u>\$ (6,482)</u>	<u>\$ 77,790</u>	<u>\$ 6,482</u>
Total Governmental Activity	<u><u>\$ 84,272</u></u>	<u><u>\$ (6,482)</u></u>	<u><u>\$ 77,790</u></u>	<u><u>\$ 6,482</u></u>
<u>Business-Type Activity</u>				
2006 General Obligation Limited Tax Capital Improvement Bond issued November 14, 2006 with annual payments of \$18,000 at an interest rate of 5.5% for 15 years.	<u>\$180,000</u>	<u>\$ (8,000)</u>	<u>\$ 172,000</u>	<u>\$ 8,000</u>
Total Business-Type Activity	<u><u>\$180,000</u></u>	<u><u>\$ (8,000)</u></u>	<u><u>\$ 172,000</u></u>	<u><u>\$ 8,000</u></u>
Total Reporting Entity	<u><u>\$264,272</u></u>	<u><u>\$ (14,482)</u></u>	<u><u>\$ 249,790</u></u>	<u><u>\$14,482</u></u>

Long-Term Debt

The annual debt service requirements to maturity for the Village of Kaleva's long-term borrowing may be summarized as follows:

VILLAGE OF KALEVA

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE G--LONG-TERM DEBT (Continued)

Annual Debt Service Requirements--Governmental Activities

In July 1998, the village obtained an infrastructure loan/grant through the Michigan Economic Development Corporation (MEDC), a Federally funded program in the amount of \$923,754. For each qualifying job created, which adds to the existing job base, the loan is reduced by \$20,000 by applying the payment first to accrued interest and then to the principal loan balance. The objective of the loan and establishment of the renaissance zone was completed. As a result, the interest on the loan has been forgiven and the village is required to repay 10% of the \$923,754 loan amount. Accordingly, the principal amount due, as defined in the financing agreement, will be \$92,375.40 and quarterly payments of \$1,620.62 that begin December 1, 2005 and with a final payment in the amount of \$1,620.68 due on December 1, 2019.

<u>Date of Maturity</u>	<u>Principal</u>
2008	\$ 6,482
2009	6,483
2010	6,482
2011	6,483
2012	6,482
2013	6,483
2014	6,482
2015	6,483
2016	6,482
2017	6,483
2018	6,482
2019	<u>6,483</u>
Total	<u>\$ 77,790</u>

VILLAGE OF KALEVA

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE G--LONG-TERM DEBT (Continued)

Annual Debt Service Requirements--Business Type Activity

In November 2006, the village issued General Obligation Limited Tax Capital Improvement Bonds in the amount of \$180,000 for improvements the water system and requires annual payments beginning November 1, 2007 and ending November 1, 2021 with an interest rate of 5.5%.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Total</u>
2008	\$ 8,000	\$ 10,000	\$ 18,000
2009	9,000	9,000	18,000
2010	9,000	9,000	18,000
2011	10,000	8,000	18,000
2012	10,000	8,000	18,000
2013	11,000	7,000	18,000
2014	12,000	6,000	18,000
2015	13,000	5,000	18,000
2016	13,000	5,000	18,000
2017	14,000	4,000	18,000
2018	14,000	4,000	18,000
2019	16,000	2,000	18,000
2020	16,000	2,000	18,000
2021	17,000		17,000
Total	<u>\$172,000</u>	<u>\$79,000</u>	<u>\$251,000</u>

VILLAGE OF KALEVA

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE H--RISK MANAGEMENT

The Village of Kaleva is exposed to various risks of loss related to property loss, torts, and errors and omissions and employees injuries (workers compensation). The village participates in the Michigan Municipal Liability and Property Pool for claims relating to general liability, excess liability, auto liability, errors and omissions, physical damage (equipment, building and contents) and workers' compensation. Settlement amounts have not exceeded insurance coverage for the past three years.

The local units in the State of Michigan established and created a trust fund, known as the Michigan Municipal Liability and Property pool (Pool) pursuant to the provisions of Public Act 138 of 1982. The pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to local units and related local unit activities within the state.

The Pool program operates as a common risk-sharing management program for local units in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. The village pays an annual premium to the Pool for its insurance coverage.

VILLAGE OF KALEVA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended December 31, 2007

EXHIBIT H

	BUDGETED AMOUNTS			Variance With Final Budget Positive (Negative)
	Original Budget	Final Amended Budget	Actual	
Revenues				
Taxes	\$ 53,000	\$ 53,000	\$ 56,704	\$ 3,704
Licenses and Permits	300	300	701	401
State Grants	40,000	40,000	43,297	3,297
Contributions From Other Governmental Entities	-	-	2,000	2,000
Charge for Services	-	-	53	53
Interest and Rentals	95,000	95,000	118,071	23,071
Other Revenue	2,000	2,000	2,151	151
Total Revenue	190,300	190,300	222,977	32,677
Expenditures				
General Government	61,160	85,560	69,535	16,025
Public Safety	4,100	4,200	4,134	66
Public Works	33,150	45,450	25,349	20,101
Community and Economic Development	1,800	1,800	1,769	31
Recreational and Cultural	7,500	10,150	8,773	1,377
Other	7,300	8,000	4,920	3,080
Capital Outlay	12,500	12,500	12,241	259
Debt Service	6,482	6,482	1,621	4,861
Total Expenditures	133,992	174,142	128,342	45,800
Excess of Revenues Over (Under) Expenditures	56,308	16,158	94,635	78,477
Other Financing Sources (Uses)				
Interfund Transfers (Out)	(30,000)	(80,700)	(30,000)	50,700
Total Other Financing Sources (Uses)	(30,000)	(80,700)	(30,000)	50,700
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	26,308	(64,542)	64,635	129,177
Fund Balance--January 1, 2007	275,000	275,000	351,166	76,166
Fund Balance--December 31, 2007	\$ 301,308	\$ 210,458	\$ 415,801	\$ 205,343

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF KALEVA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
MAJOR STREET--MAJOR SPECIAL REVENUE FUND
For the Year Ended December 31, 2007

EXHIBIT I

	BUDGETED AMOUNTS			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
State Grants	\$ 52,200	\$ 52,200	\$ 55,903	\$ 3,703
Charges for Services			544	544
Interest and Rentals	2,000	2,000	755	(1,245)
Total Revenues	54,200	54,200	57,202	3,002
Expenditures				
Public Works				
Preservation/Structural Improvements	25,000	43,650	33,768	9,882
Routine and Preventive Maintenance	38,760	39,460	33,381	6,079
Winter Routine and Preventive Maintenance	18,000	30,000	27,657	2,343
Total Expenditures	81,760	113,110	94,806	18,304
Excess of Revenues Over (Under) Expenditures	(27,560)	(58,910)	(37,604)	21,306
Other Financing Sources (Uses)				
Interfund Transfers In	-	-	25,000	(25,000)
Interfund Transfers (Out)	(20,000)	(20,000)	-	20,000
Total Other Financing Sources (Uses)	(20,000)	(20,000)	25,000	(5,000)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(47,560)	(78,910)	(12,604)	66,306
Fund Balance--January 1, 2007	51,000	51,000	24,933	(26,067)
Fund Balance--December 1, 2007	\$ 3,440	\$ (27,910)	\$ 12,329	\$ 40,239

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF KALEVA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
LOCAL STREET--MAJOR SPECIAL REVENUE FUND
For the Year Ended December 31, 2007**

EXHIBIT J

	<u>BUDGETED AMOUNTS</u>			Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
State Grants	\$ 19,900	\$ 19,900	\$ 20,015	\$ 115
Charges for Services	-	-	181	(181)
Interest and Rentals	65	65	134	69
Contributions From Private Sources	-	-	15,000	15,000
Total Revenues	<u>19,965</u>	<u>19,965</u>	<u>35,330</u>	<u>15,003</u>
Expenditures				
Public Works				
Construction	25,000	25,000	38,790	(13,790)
Routine and Preventive Maintenance	20,000	21,800	11,777	10,023
Winter Routine and Preventive Maintenance	10,300	15,350	14,450	900
Total Expenditures	<u>55,300</u>	<u>62,150</u>	<u>65,017</u>	<u>(2,867)</u>
Excess of Revenues Over (Under) Expenditures	<u>(35,335)</u>	<u>(42,185)</u>	<u>(29,687)</u>	<u>12,136</u>
Other Financing Sources (Uses)				
Interfund Transfers In	<u>30,000</u>	<u>30,000</u>	-	<u>(30,000)</u>
Total Other Financing Sources (Uses)	<u>30,000</u>	<u>30,000</u>	-	<u>(30,000)</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(5,335)</u>	<u>(12,185)</u>	<u>(29,687)</u>	<u>(17,502)</u>
Fund Balance--January 1, 2007	<u>11,000</u>	<u>11,000</u>	<u>14,642</u>	<u>3,642</u>
Fund Balance--December 1, 2007	<u>\$ 5,665</u>	<u>\$ (1,185)</u>	<u>\$ (15,045)</u>	<u>\$ (13,860)</u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF KALEVA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
LIBRARY--MAJOR SPECIAL REVENUE FUND
For the Year Ended December 31, 2007

EXHIBIT K

	<u>BUDGETED AMOUNTS</u>			Variance With
	Original	Final	Actual	Final Budget Positive (Negative)
Revenues				
Other--Donations			\$ 5,383	\$ 5,383
Total Revenues	\$ -	\$ -	5,383	5,383
Expenditures				
Recreational and Cultural	-	-	6,594	6,594
Total Expenditures	-	-	6,594	6,594
Excess of Revenues Over (Under) Expenditures	-	-	(1,211)	11,977
Fund Balance--January 1, 2007	-	-	66,155	66,155
Fund Balance--December 1, 2007	\$ -	\$ -	\$ 64,944	\$ 64,944

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF KALEVA
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2007**

EXHIBIT L

	Park	Liquor Law Enforcement	Renaissance	Total
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 2,696		\$ 29,099	\$ 31,795
Total Assets	\$ 2,696	\$ -	\$ 29,099	\$ 31,795
<u>LIABILITIES AND FUND EQUITY</u>				
Liabilities	\$ 100			\$ 100
Total Liabilities	100	\$ -	\$ -	100
Fund Equity				
Fund Balance	2,596	-	29,099	31,695
Total Fund Equity	2,596	-	29,099	31,695
Total Liabilities and Fund Equity	\$ 2,696	\$ -	\$ 29,099	\$ 31,795

VILLAGE OF KALEVA
COMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended December 31, 2007

EXHIBIT M

	Park	Liquor Law Enforcement	Renaissance	Total
Revenues				
State Grants		\$ 637		\$ 637
Charges for Services	\$ 5,630			5,630
Interest			\$ 290	290
Total Revenue	5,630	637	290	6,557
Expenditures				
Public Safety		637		637
Recreational and Cultural	8,689			8,689
Capital Outlay	3,410			3,410
Debt Service--Principal			4,862	4,862
Total Expenditures	12,099	637	4,862	17,598
Excess of Revenues Over (Under) Expenditures	(6,469)	-	(4,572)	(11,041)
Other Financing Sources (Uses) Interfund Transfers In	5,000			5,000
Total Other Financing Sources (Uses)	5,000	-	-	5,000
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(1,469)	-	(4,572)	(6,041)
Fund Balance--January 1, 2007	4,065	-	33,671	37,736
Fund Balance--December 31, 2007	\$ 2,596	\$ -	\$ 29,099	\$ 31,695

**VILLAGE OF KALEVA
SCHEDULE OF REVENUES
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2007**

EXHIBIT N

	<u>BUDGETED AMOUNTS</u>			Variance
	Original	Final	Actual	Favorable (Unfavorable)
<u>REVENUES</u>				
Property Taxes				
Current	\$ 53,000	\$ 53,000	\$ 46,278	\$ (6,722)
Delinquent	-	-	10,426	10,426
Total Property Taxes	53,000	53,000	56,704	3,704
Licenses and Permits				
Land Use Permits	300	300	701	401
Total Licenses and Permits	300	300	701	401
State Grants				
Revenue Sharing	40,000	40,000	43,297	3,297
Total State Grants	40,000	40,000	43,297	3,297
Contributions From Other Governmental Entities				
Contributions	-	-	2,000	2,000
Total Contributions From Other Governmental Entities	-	-	2,000	2,000
Charges for Services				
Copies	-	-	53	53
Total Charges for Services	-	-	53	53
Interest and Rents				
Vehicle Rental	40,000	40,000	49,285	9,285
Rent			2,440	2,440
Interest Earned	10,000	10,000	15,414	5,414
Royalties	45,000	45,000	50,932	5,932
Total Interest and Rents	95,000	95,000	118,071	23,071
Other Revenues				
Reimbursements	500	500	150	(350)
Sale of Capital Assets	1,500	1,500	2,001	501
Total Other Revenues	2,000	2,000	2,151	151
Total Revenue	\$ 190,300	\$ 190,300	\$ 222,977	\$ 32,677

**VILLAGE OF KALEVA
SCHEDULE OF EXPENDITURES
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2007**

EXHIBIT O

	BUDGETED AMOUNTS			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
General Government				
Village Council	\$ 5,900	\$ 6,100	\$ 5,085	\$ 1,015
President	1,920	2,120	1,862	258
Audit	800	800	-	800
Elections	900	900	-	900
Legal	5,000	19,300	18,731	569
Clerk	10,570	14,295	9,954	4,341
Treasurer	7,670	11,295	5,581	5,714
Building and Grounds	28,400	30,750	28,322	2,428
Total General Government	61,160	85,560	69,535	16,025
Public Safety				
Fire	4,100	4,200	4,134	66
Total Public Safety	4,100	4,200	4,134	66
Public Works				
Department of Public Works	22,650	34,950	15,140	19,810
Sidewalk	200	200	190	10
Street Lights	10,300	10,300	10,019	281
Total Public Works	33,150	45,450	25,349	20,101
Community and Economic Development				
Planning	1,800	1,800	1,769	31
Total Community and Economic Development	1,800	1,800	1,769	31
Recreational and Cultural				
Train Depot	1,000	3,650	3,645	5
Community Promotion	6,500	6,500	5,128	1,372
Total Recreational and Cultural	7,500	10,150	8,773	1,377
Other				
Other--Payroll Tax Adjustments	650	650	603	47
Workers Compensation Insurance	600	600	232	368
Unemployment	2,500	2,500	2,327	173
Flag	1,050	1,750	85	1,665
General Liability Insurance	2,500	2,500	1,673	827
Total Other	7,300	8,000	4,920	3,080
Capital Outlay				
Capital Outlay	12,500	12,500	12,241	259
Total Capital Outlay	12,500	12,500	12,241	259
Debt Service				
Principal Payments	6,482	6,482	1,621	4,861
Total Debt Service	6,482	6,482	1,621	4,861
Total Expenditures	133,992	174,142	128,342	45,800
Other Financing Uses				
Interfund Transfers (Out)	30,000	80,700	30,000	50,700
Total Other Financing Sources (Uses)	30,000	80,700	30,000	50,700
Total Expenditures	\$ 163,992	\$ 254,842	\$ 158,342	\$ 96,500



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

October 30, 2008

Village Council
Village of Kaleva
P.O. Box 45
Kaleva, Michigan 49645

RE: Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of the Financial Statements Performed in Accordance
With Government Auditing Standards

Dear Council Members:

We have audited the financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the Village of Kaleva, Manistee County, Michigan, as of and for the year ended December 31, 2007, and have issued our report thereon dated October 30, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Kaleva's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village of Kaleva's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village of Kaleva's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the previous paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting

principles such that there is more than a remote likelihood that a misstatement of the village's financial statements that is more than inconsequential will not be prevented or detected by the village's internal control. We consider the deficiencies described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting and are documented as Findings 2005-1 and 2007-1 through 2007-3.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the village's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered material weaknesses. However, of the significant deficiencies described above, we consider none to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Kaleva's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings as Findings 2005-3 and 2007-4 through 2007-8.

We noted certain "Other Matters" that we reported to the management of Kaleva Village in the accompanying Schedule of Findings as Findings 2007-9 through 2007-16.

This report is intended solely for the information of Kaleva's village council, the village's management and others within the village and Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

October 30, 2008

Village Council
Village of Kaleva
P.O. Box 45
Kaleva, Michigan 49645

RE: Auditor's Communication With Those Charged With Governance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Kaleva for the year ended December 31, 2007, and have issued our report thereon dated October 30, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in the engagement letter dated March 13, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Village of Kaleva. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning internal control.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Village of Kaleva's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures to specifically identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on June 3, 2008.

Significant Audit Findings

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Village of Kaleva are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year ending December 31, 2007. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements With Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 30, 2008.

Management Consultations With Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Village of Kaleva’s Council and management of the Village of Kaleva and is not intended to be and should not be used by anyone other than these specified parties. However, this information is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

VILLAGE OF KALEVA

SCHEDULE OF FINDINGS

December 31, 2007

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that could adversely affect the Village of Kaleva's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Village of Kaleva's financial statements that is more than inconsequential will not be prevented or detected by the village's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that could result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. Listed below are material weaknesses and significant deficiencies in the internal control.

The village is small in size. Therefore, there is an overall lack of segregation of duties which should be considered when reviewing the significant deficiencies and other matters listed below. Segregation of duties requires that key duties and responsibilities be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.

SIGNIFICANT DEFICIENCIES

Management (village council) is responsible for establishing and maintaining a system of internal controls over the accounting procedures. Our study and evaluation of internal control disclosed the following conditions that we believe to be significant deficiencies:

Independent Review of Water Revenues

Finding 2005-1

Condition: The treasurer is responsible for preparing the water bills, opening the mail, collecting money, preparing receipts, posting the water payments to the computer, preparing the bank deposits and making bank deposits. There are no independent reviews of the amounts collected with the amounts actually deposited. Also, under the current computer program used by the village, no method exists to print reports once a billing period has ended.

Criteria: According to the Uniform Accounting Procedures Manual, someone other than the person who writes receipts or posts the accounting records must be responsible to verify that collections received in the mail are properly receipted. Also, when possible, collections must be reconciled by an individual not involved in the receipt process. Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud.

VILLAGE OF KALEVA

SCHEDULE OF FINDINGS

December 31, 2007

SIGNIFICANT DEFICIENCIES (Continued)

Recommendation: We recommend that a person independent of the water receipting process verify the collections received through the mail and over the counter to the amounts posted to the computer and bank deposits. We also recommend that the village invest in a computer program that will be able to provide the reports necessary to perform the independent reviews.

Disbursement Process (Vendor and Payroll Checks)

Finding 2007-1

Condition: The village clerk reviews invoices as they are received but does not indicate any administrative approval (initials) on the invoices. Time sheets are not signed or initialed to indicate evidence of supervisory review.

Criteria: Standards of Internal Control for the Federal Government lists *control activities* as one of the five components of internal control. Control activities occur at all levels and include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, and performance reviews. According to the Standards for Internal Control, transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire vendor payment and payroll process from the initiation and authorization through its final classification in summary records. According to the Uniform Accounting Procedures Manual, invoices should contain administrative approval as verification that the invoices (or timesheets) have been properly reviewed and “appropriate documentation that has been reviewed by the proper personnel must be attached for all disbursements.” The Uniform Accounting Procedures Manual also requires invoices to provide account classifications in conformance with the Uniform Chart of Accounts.

Recommendation: We recommend that the clerk begin including administrative approval on all invoices as verification that the invoices have been reviewed and that all time sheets (Salary/Wages and Other Expenses) be reviewed and signed by the appropriate personnel, and account classifications be included.

Lack of Wages Reported and Taxes Withheld From Wages

Finding 2007-2

Condition: Taxes were not being withheld from board meeting per diems (\$30 per person per meeting) for village council members as well as employees when they attend board meetings. Employees attending board meetings did not have their meeting per diems included in gross wages. In addition, village council members did not receive W-2s for their meeting per diem income.

Criteria: According to IRS Publication 15, (Circular E), Employer’s Tax Guide, wages subject to Federal employment taxes generally include all pay that you give to an employee for services performed. In addition, the Michigan Department of Treasury’s Accounting Procedures Manual, states that withholdings must be remitted timely; and payroll tax returns must be filed timely. Also, all wages earned must be properly reported on IRS Form 941 as well as the W-2 form.

VILLAGE OF KALEVA
SCHEDULE OF FINDINGS
December 31, 2007

SIGNIFICANT DEFICIENCIES (Continued)

IRS Publication 15-B (page 6) states: "...Cash, no matter how little, is never excludable as a de minimis benefit, except for occasional meal money or transportation fare."

Recommendation: We recommend that the village include all per diems as taxable income for employees and board members and withhold the appropriate taxes.

Cash Receipts

Finding 2007-3

Condition: Official Receipts were written for most, but not all cash that came in to the village. For example, there was no receipt written for cash deposited due to an error in payroll.

Criteria: Required procedures for cash receipts records are explained in detail in Chapter 4, "Cash Receipting Procedures" and Chapter 3, "Bank And Investment Accounts of the Accounting Procedures Manual for Local Units of Government in Michigan," which can be accessed on the Michigan Department of Treasury website under Local Government Services/Accounting Information/Bulletins, Manuals and Forms.

Required internal control procedures applicable to the Village of Kaleva include:

1. Official receipts must be issued for each collection, whether received from an individual, the state, the county, or another local unit department.
2. Numerically controlled (printer pre-numbered) official receipts with the name of the local unit and the department name printed on the receipt must be issued for all collections. Official Receipts may be manually written or computer generated.
3. The use of generic, store-bought receipts is strictly prohibited.
4. "Cash" or "check" as the method of payment must be indicated on the receipt.
5. The receipt must identify the individual receiving payment.
6. The receipt must allow for immediate revenue account classification in conformance with the Uniform Chart of Accounts.
7. Checks must be restrictively endorsed at the point and time of collection.
8. When possible, someone other than the person who writes receipts or posts the accounting records must be responsible to verify that collections received in the mail are properly receipted.
9. When possible, collections must be reconciled by an individual not involved in the receipting process.

Recommendation: We recommend that the village treasurer issue official receipts immediately upon collection and implement the aforementioned procedures. Monthly procedures should include comparing receipts written for the month with the receipts register and with bank deposits.

VILLAGE OF KALEVA
SCHEDULE OF FINDINGS
December 31, 2007

STATUTORY NONCOMPLIANCE

Adoption of Village General Appropriation Acts

Finding 2005-3

Condition: The Village of Kaleva did not adopt a budget for 2007 until January 2007. The village did not adopt updated budgets for the Renaissance Fund, Liquor Law Fund and the Library Fund. The budgets that were adopted by the board did not contain information from the most recently completed fiscal year and did not contain information from the current fiscal year. The final amended budget for the Local Street Fund was approved with a deficit fund balance, where the final amended budget had expenditures greater than the revenues and beginning fund balance.

Criteria: MCL 141.435 states:

- (1) The recommended budget shall include at least the following:
 - (a) Expenditure data for the most recently completed fiscal year and estimated expenditures for the current fiscal year.
 - (b) An estimate of the expenditure amounts required to conduct, in the ensuing fiscal year, the government of the local unit, including its budgetary centers.
 - (c) Revenue data for the most recently completed fiscal year and estimated revenues for the current fiscal year.
 - (d) An estimate of the revenues, by source of revenue, to be raised or received by the local unit in the ensuing fiscal year.
 - (e) The amount of surplus or deficit that has accumulated from prior fiscal years, together with an estimate of the amount of surplus or deficit expected in the current fiscal year. The inclusion of the amount of an authorized debt obligation to fund a deficit shall be sufficient to satisfy the requirement of funding the amount of a deficit estimated under this subdivision.
 - (f) An estimate of the amounts needed for deficiency, contingent, or emergency purposes.
 - (g) Other data relating to fiscal conditions that the chief administrative officer considers to be useful in considering the financial needs of the local unit.

MCL 141.436 states:

- (1) Unless another method for adopting a budget is provided by a charter provision in effect on April 1, 1980, the legislative body of each local unit shall pass a general appropriations act for all funds except trust or agency, internal service, enterprise, debt service or capital project funds for which the legislative body may pass a special appropriation act.

MCL 141.438 Section 18 (3) states: “Except as otherwise provided in section 19, an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body. The chief administrative officer, an administrative officer, or an employee of the local unit shall not apply or divert money of the local unit for purposes inconsistent with those specified in the appropriations of the legislative body.”

VILLAGE OF KALEVA
SCHEDULE OF FINDINGS
December 31, 2007

STATUTORY NONCOMPLIANCE (Continued)

Directive: We direct the village to comply with the above statutory budgeting requirements.

Open Meetings Act Violations

Finding 2007-4

Condition: On July 10, 2006, the council held a closed session. The meeting was requested by residents who were asking council to grant a variance to construct a pole building. The closed session was called for an improper purpose.

Criteria: MCL 15.267, section 7 (1) of the Open Meetings Act states, in part: "The roll call vote and the purpose or purposes for calling the closed session shall be entered into the minutes of the meeting at which the vote is taken." MCL 15.268 specifies the permissible purposes for which a closed session may be held.

Directive: We direct the village to comply with the provisions of the Open Meetings Act by only meeting in closed session for purposes allowed by the act.

Open Meetings Act Violation

Finding 2007-5

Condition: There were numerous occasions where roll call votes were not documented in the council minutes.

Criteria: MCL 15.267, section 7 (1) of the Open Meetings Act states, in part: "The roll call vote and the purpose or purposes for calling the closed session shall be entered into the minutes of the meeting at which the vote is taken."

Directive: We direct the village to comply with the provision of the Open Meetings Act by documenting the roll call votes into the minutes of the meeting at which the vote is taken.

Unlawful Loan of Village Funds

Finding 2007-6

Condition: In December 2006, the village loaned \$5,747 to the local elementary school for playground equipment. The funds are to be paid back by December 31, 2009, however, no formal note or loan agreement was signed by both parties.

Criteria: According to the Michigan Constitution of 1963, Article 7, Section 26: "Except as otherwise provided in this constitution, no city or village (or any local unit of government) shall have the power to loan its credit for any private purpose or, except as provided by law, for any public purpose."

Directive: We direct the village to have a note or loan agreement signed by the village as well as the School Board and to recover the amount loaned.

VILLAGE OF KALEVA

SCHEDULE OF FINDINGS

December 31, 2007

STATUTORY NONCOMPLIANCE (Continued)

Social Security Number Privacy Policy

Finding 2007-7

Condition: The Village of Kaleva has not adopted a Social Security Number Privacy Policy.

Criteria: According to the Social Security Privacy Act, PA 454 of 2004, MCL 455.84, Section 4, subsection 1, beginning January 1, 2006, a person in the ordinary course of business who obtains or retains information about one or more social security numbers must create a policy that does at least all of the following:

- (a) Ensures to the extent practicable the confidentiality of the social security numbers.
- (b) Prohibits unlawful disclosure of the social security numbers.
- (c) Limits who has access to information or documents that contain the social security numbers.
- (d) Describes how to properly dispose of documents that contain the social security numbers.
- (e) Establishes penalties for violation of the privacy policy.

Section 4, subsection 2, requires a person that creates a privacy policy, under subsection 1, shall publish the privacy policy in an employee handbook, in a procedures manual, or in one or more similar documents, which may be made available electronically.

Directive: We direct the Village of Kaleva to adopt a Social Security Number Privacy Policy implementing at least the minimum protections and procedures listed above.

Electronic Transactions of Public Funds

Finding 2007-8

Condition: The Village of Kaleva electronically transfers funds for payroll withholdings without legal authority.

Criteria: According to MCL 124.303: "A local unit shall not be a party to an Automated Clearing House (ACH) arrangement unless the governing body of the local unit has adopted a resolution to authorize electronic transactions and the treasurer or the Electronic Transaction Officer (ETO) of the local unit has presented a written ACH policy to the governing body. The ACH policy shall include all of the following:

- (a) That an officer or employee designated by the treasurer or ETO is responsible for the local unit's ACH agreements, including payment approval, accounting, reporting, and generally for overseeing compliance with the ACH policy.
- (b) That the officer or employee responsible for disbursement of funds shall submit to the local unit documentation detailing the goods or services purchased, the cost of the goods or services, the date of the payment, and the department levels serviced by payment. This report can be contained in the electronic general ledger software system of the local unit or in a separate report to the governing body of the local unit.

VILLAGE OF KALEVA
SCHEDULE OF FINDINGS
December 31, 2007

STATUTORY NONCOMPLIANCE (Continued)

- (c) A system of internal accounting controls to monitor the use of ACH transactions made by the local unit.
- (d) The approval of ACH invoices before payment.
- (e) Any other matters the treasurer or ETO considers necessary.”

Directive: We direct the village council to adopt a resolution to authorize electronic transactions and to adopt a policy that includes the above mentioned items.

OTHER MATTERS

Conflict of Interest Policy

Finding 2007-9

Condition: The Village of Kaleva has not adopted a Conflict of Interest Policy.

Criteria: Members and participants in government at every level must be diligent in avoiding unethical conduct and conflicts of interest. A Conflict of Interest Policy is a useful tool to help prevent unethical conduct and conflicts of interest from occurring in local units of government.

Recommendation: We recommend that the Village of Kaleva adopt a Conflict of Interest Policy. A good example is Leelanau County, Michigan’s policy which can be found on the Leelanau County website under Boards and Commissions. The web address is:

http://www.leelanaucounty.com/downloads/conflict_of_interest_policy.pdf

Capital Asset Listing Maintenance

Finding 2007-10

Condition: While the village did make notes on the capital asset listing for the addition and the deletion, there is still a general lack of proper capital asset accounting.

Criteria: It is the responsibility of the village to update the capital assets listing for additions and deletions. Assets purchased during the year and recorded as capital outlay should equal the additions to the capital asset records. Disposals should equal the reductions to the capital asset records.

Recommendation: We recommend that the village develop a property management system that includes all of the following steps:

- 1) An inventory of all capital assets owned by the village should be taken and included in the permanent records of the village and updated annually.

VILLAGE OF KALEVA

SCHEDULE OF FINDINGS

December 31, 2007

OTHER MATTERS (Continued)

- 2) All assets owned by the village should be permanently labeled in some manner such as individual tags. This will not only facilitate the inventory suggested above, but will also make it more difficult for assets of the village to be removed or used by unauthorized personnel.
- 3) As part of the property management system, the village should keep records on all assets owned by the village, which includes the following information:

-Date of Acquisition	-Date of Disposal (when sold or scrapped)
-Tag Number	-Salvage Value (if any)
-Description of Property	-Life of Asset
-Original Cost of Asset	-Depreciation Method of the Asset
-Location of Asset	-Accumulated Depreciation of the Asset
- 4) Capital assets that meet the village's capitalization policy should be included on the capital asset listing.
- 5) Capital outlay/assets which are purchased under the established capitalization threshold or assets with life expectancy of less than 1 year, regardless of cost, should be classified as a supply or repairs and maintenance expenditure.

Developing a property management system that includes the above steps will not only facilitate the preparation of financial statements related to capital assets and provide a system of protection for the assets; it will provide an excellent record for insurance and replacement purposes as well. Governmental Accounting Standards Board (GASB) Statement No. 34 requires capital assets to be included in the financial statements of the village.

Capitalization Threshold Policy

Finding 2007-11

Condition: We found that the council does not have a formal capitalization threshold policy. The village does not have a policy for determining the fair value of contributed capital assets, which should be periodically reviewed by the appropriate level of management or another appropriate person.

Recommendation: We recommend that the board adopt a resolution for a capitalization policy. The policy should also address determining the fair value of contributed capital assets (including infrastructure).

VILLAGE OF KALEVA
SCHEDULE OF FINDINGS
December 31, 2007

OTHER MATTERS (Continued)

Disbursements--Inadequate Documentation

Finding 2007-12

Condition: We found some instances where documentation for disbursements was either inadequate or missing. An example is mileage reimbursements requested on a slip of scrap paper that did not give specific detail as to the specific location and purpose and did not include the time of the trip. The requests were also not approved by someone other than the requester.

Criteria: Strong internal controls dictate that original source documentation must be retained to support all disbursements. The Michigan Department of Treasury Uniform Accounting Procedures Manual states, in part: "Appropriate documentation must be attached for all disbursements...original bills, not copies must be used for documentation."

Recommendation: We recommend that the village retain original invoices and any other source documentation for all disbursements (including administrative approval) and that the original invoices be attached to the check copies.

Personnel Policies and Position Descriptions

Finding 2007-13

Condition: The village does not have a complete set of personnel policies and there are no position descriptions for the clerk, treasurer, water superintendent, or DPW workers. There were no policies in place to test the amount of reimbursements to employees (full-time vs. part-time) for uniforms or work boots.

Criteria: Strong internal controls recommend establishing policies to aid in the administration of the organization. Policies lay out guidelines with which new employees and new council members can readily acquaint themselves. Policies establish standard operating procedures in many areas of village business. Policies can ensure uniform and consistent answers and treatment of procedures.

Policies need to be adopted by the council at a council meeting. An annual review of policies should be performed by the staff and, as needed, updated in the form of amendments.

Recommendation: We recommend that the village council create a complete set of personnel policies. There should be a policy that addresses items such as the maximum amount that the village will reimburse employees for uniforms or work boots. The policy should require the employee to provide a receipt as evidence of the purchase. There should also be position descriptions for all employees.

VILLAGE OF KALEVA
SCHEDULE OF FINDINGS
December 31, 2007

OTHER MATTERS (Continued)

Preparation and Approval of Quarterly Payroll Reporting

Finding 2007-14

Condition: More care should be taken when preparing the Quarterly Payroll Reports (Form 941) and payroll deductions. There were numerous instances where the payroll tax amounts were off by immaterial amounts. In addition, we noted that there were two occasions where the village had to pay the IRS for amounts owed. In addition, the village did not prepare an annual 1099 form for the village attorney or the builder that did the roof project on the Depot.

Criteria: According to IRS Publication 15, (Circular E), Employer's Tax Guide, wages subject to federal employment taxes generally include all pay that you give to an employee for services performed. In addition, the Michigan Department of Treasury's Accounting Procedures Manual, states that withholdings must be remitted timely; and payroll tax returns must be filed timely. Also, all wages earned must be properly reported on IRS Form 941 as well as the W-2 forms.

A 1099 form must be prepared for payments of \$600 or more for services performed for a trade or business by people not treated as village employees. Examples: fees to subcontractors and gross proceeds paid to attorneys. A 1099 form is not generally required for a corporation. A W-9 should be prepared for each vendor meeting the above description to verify the proper name, address and social security number or tax identification number.

Recommendation: We recommend that the village clerk take extra care to properly calculate payroll taxes and the village treasurer cross check the amounts when making the tax deposits. We also recommend that the village prepare an annual 1099 form for all individuals and partnerships meeting the criteria above, which includes attorneys and contractors that receive \$600 or more. A W-9 should be prepared for each vendor.

Payment of State Sales Tax by the Village

Finding 2007-15

Condition: We found that the village is paying state sales tax on many items. This primarily includes reimbursements to employees for purchases of office supplies. However, if the village contracts out for services, it is up to the contractor to pay the applicable sales tax on the materials needed for the job and the village to pay the contractor for those materials.

Criteria: Governmental units are exempt from paying state sales tax on office supplies, however, the units must pay a contractor for the labor and materials needed to complete a job (this includes sales tax on material needed to complete a job).

Recommendation: We recommend a policy be instituted to keep to a minimum the number of purchases that make the village pay sales tax.

VILLAGE OF KALEVA
SCHEDULE OF FINDINGS
December 31, 2007

OTHER MATTERS (Continued)

Unlawful Expenditures

Finding 2007-16

Condition: We found the following expenditure from the General Fund: \$66 to the elementary school for a Santa, cookies, and punch.

Criteria: Contributions or appropriations that are not specifically authorized by the constitution or State statute cannot be authorized or issued regardless of the worthiness of the cause.

Examples of such prohibited expenditures where there is no contract for specific services to lawful wards or functions of the local unit that have been negotiated are as follows:

- Contributions to churches, veterans, non-profit organizations;
- Donations to a private ambulance or EMS service not under contract with the governmental unit;
- Donations, including use of property or equipment to Little League, Scouts, Big Brothers/Big Sisters;
- Donations to community organizations;
- Purchases of items for a nonpublic purpose.

Recommendation: We recommend that the village discontinue making any further purchases that are not permissible under Michigan Law.